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C O N F I D E N T I A L SECTION 01 OF 03 BERLIN 000664

STATE FOR EEB (NELSON), DRL/ILCSR AND EUR/CE (SCHROEDER)
TREASURY FOR ICN (KOHLER), CARR AND OASIA
NSC FOR JHOVENIER
LABOR FOR ILAB (BRUMFIELD)
SIPDIS

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TAGS: ECON EFIN ETRD ELAB PGOV GM
SUBJECT: OPEL RESCUE: MERKEL CREDITS PRESIDENT OBAMA WITH
SUCCESS

REF: A. BERLIN 0644
¶B. BERLIN 0605
¶C. BERLIN 0569
¶D. BERLIN 0272
¶E. BERLIN 0214

Classified By: CHARGE D'AFFAIRES JOHN M. KOENIG FOR REASONS 1.4 (B) AND (D).

¶1. (C) SUMMARY: After a deal on the rescue of General Motors subsidiary Opel/Vauxhall was reached in the early hours of May 30, Chancellor Merkel underlined the important role played by President Obama. The Canadian firm Magna International, along with the Russian bank Sberbank and Russian auto manufacturer Gaz, agreed together to buy 55 percent of Opel. Chancellor Merkel called the negotiations a "test case" for transatlantic relations, and said President Obama's engagement helped bring the deal to conclusion. Reactions to the agreement were generally positive, despite the financial burden on the German government. Not everyone was pleased, however: Economics Minister zu Guttenberg said he favored a "controlled insolvency" and threatened to resign over the affair, while German business groups and pro-business politicians voiced concern over the government's role in corporate bailouts. Facing national elections in less than four months, however, Merkel said there was no "political alternative" to the rescue deal. END SUMMARY.

THE DEAL TO SAVE OPEL

¶2. (SBU) An agreement to separate Opel/Vauxhall from the parent company General Motors (GM) was reached in the early hours of May 30, 2009. The German government selected a proposal put forward by Magna, the Austrian-Canadian auto parts supplier; Sberbank, a Russian bank; and Gaz, a Russian automotive manufacturer, to take over the subsidiary. The deal had three main elements: 1) a memorandum of understanding between GM and Magna (acting on behalf of Sberbank and Gaz) on their future roles in Opel, including a pledge by Magna to provide 300 million euros to pay Opel bills due June 2 should the German government not be able to provide 1.5 billion euros bridge financing in time; 2) agreement among the U.S. Treasury, GM and the German government on the creation of an independent trust to run Opel for six months until Magna and GM finalize the takeover; and 3) agreement between the German federal government and the four states with Opel plants to provide 1.5 billion euros of bridge financing until Magna formally takes over Opel. In the end, the German government will guarantee loans totaling

4.5 billion euros through 2014. (NOTE: The 4.5 billion euro figure includes the 1.5 billion euros of bridge financing and 300 million euros of short-term liquidity assistance.) Although the deal technically requires EU approval, the EU Commission appears unlikely to reject it.

¶3. (C) An Opel manager confirmed to the Embassy that the Finance Ministry transferred the necessary 300 million euros in short-term funding on June 2; Magna was therefore off the hook. Separately, a high-level Chancellery contact told us the German government decided to pay the 300 million euros after Magna demanded a second guarantee and Opel offered "additional collateral." The German federal government is providing half of the 1.5 billion euros of bridge financing, while the four federal states with Opel plants will foot the rest. Hesse will pay 447 million euros, North Rhine-Westphalia 150 million euros, Thuringia 51 million euros, and Rhineland-Palatinate 102 million euros. Two co-managing directors will run the independent trust; one appointed by GM and the other by the federal government. There will be a five-member advisory council with two representatives each from GM and the federal government. Fred Irwin, President of the American Chamber of Commerce in Germany, will chair the council. (COMMENT: A U.S. citizen resident in Germany for many years, Fred Irwin is seen as having a deep understanding of both countries and able to play a bridging role.)

¶4. (SBU) Although much remains to be clarified, the structure of future ownership seems clear. GM will retain 35 percent of Opel/Vauxhall, while Magna will take 20 percent. The

Russian bank Sberbank and Russian auto manufacturer Gaz will together own 35 percent; Opel employees, possibly including dealers, will own the remaining 10 percent. The Russian market is to become a primary focus. It is not yet clear which European plants will close or how many jobs will be cut, though Magna plans detailed analyses of these questions. Latest reports indicate job cuts of approximately 11,000 across Europe, with up to 2,600 by attrition in Germany, and the closure of at least two plants, most likely in Belgium and the UK. (NOTE: Germany agreed in March to coordinate at the EU level the final restructuring of GM Europe plants and jobs.)

MERKEL COMMENDS U.S. PRESIDENT; DEFENDS DECISION

¶5. (C) Cabinet Ministers' criticism of the U.S. Treasury and General Motors (GM) following May 27-28 negotiations over Opel's future was united and uncharacteristically strong. Chancellor Merkel, though initially silent, commented on the morning of May 29 that "there was room for improvement" in the U.S. position. After a telephone conversation between Chancellor Merkel and President Obama later that day, however, the atmosphere in the negotiations improved dramatically, according to a senior Opel contact. Merkel's public comments were also more complimentary of the United States, after the May 30 deal was announced. Merkel said Opel was a "test case" for transatlantic relations, and that President Obama's helpful attitude had "clearly shaped the negotiations." Media criticism of the U.S. role also faded, with one newspaper claiming that the U.S. Treasury representative's role had become "more constructive." A senior Chancellery official confirmed on June 2 that Germany does not see any problems on the horizon with the USG; but noted that GM data has been "unreliable." Drawing a line in the sand, Merkel emphasized that Opel was a "special case" and that other requests for state aid had no guarantee of success.

¶6. (C) Magna representatives have since stirred up new controversy by commenting that they only signed a memorandum of understanding (MOU) on May 30, not a legally binding contract. A senior Chancellery contact told us, "We believe

Magna is still committed to the deal, but the government remains open to talking to others, such as Fiat and the Chinese." A senior Economics Ministry official told us that the Germans would have preferred to continue negotiations with Fiat and Magna simultaneously to protect the government from "undue pressure" from a single investor, but were confident that Fiat would return to the table if talks with Magna failed. He stressed that the Government was not willing to provide funds in addition to the 1.5 billion euros over the next six months.

¶7. (C) With national elections on September 27, the fate of Opel and its 25,000 German jobs has become highly politicized. Economics Minister Karl-Theodor zu Guttenberg of the Christian Social Union (CSU), Bavarian sister party of Merkel's Christian Democratic Union (CDU), said he had favored a "controlled insolvency" for Opel. Other CSU members, as well as leaders of the CDU's "business wing" and the opposition Free Democratic Party (FDP) agreed. Not surprisingly, stalwarts in the Social Democratic Party (SPD) denounced zu Guttenberg's preferred solution, noting that jobs needed to be protected at all costs. All four Minister Presidents) three CDU and one SPD) of states with Opel plants supported the deal. Zu Guttenberg and SPD Finance Minister Steinbrueck reportedly fought a pitched battle on May 31 in an emergency debate of the Germany Parliament's (Bundestag's) Budget Committee. Zu Guttenberg did not deny rumors that he offered his resignation over the weekend in protest.

THE RUSSIAN ANGLE

¶8. (C) Magna reportedly scaled back its plans to take a majority stake in Opel and brought in the Russian investors because of fears that other automakers would cancel contracts if it obtained a controlling interest in a direct competitor. The fact that the Russian state-controlled Sberbank and

Russian auto manufacturer Gaz may soon, like GM, have a 35 percent share in the new Opel has met with surprisingly little controversy in Germany -- at least so far. This tacit acceptance seems to contrast with the German public's suspicion of Russian activities in the energy sector.

COMMENT

¶9. (C) Surveys show that most Germans oppose nationalization and are wary of state intervention to save companies. This sentiment apparently does not apply to Opel, however. Opel's preliminary rescue has been greeted with relief, though it has opened rifts in the CDU-SPD coalition. Divisions could deepen as the September elections approach and more companies apply for state aid. The SPD, led by Chancellor candidate and Foreign Minister Frank-Walter Steinmeier, is already negotiating with the troubled retailer Arcandor in order to save 55,000 jobs. Many in the CDU, CSU and the opposition FDP point out that Arcandor is a case of long-term mismanagement and should not qualify for rescue funds. Categorically rejecting further state aid, however, could exact a high political price if and when the job losses mount. As one commentator said, "This could become the most expensive election campaign ever."
Koenig